

MEMORANDUM



DATE: December 1, 2011
TO: Interested Parties
FROM: William E. Hamilton
RE: Milk Safety and Quality Assurance Program

This memo is substantially the same as one presented to the House Appropriations Subcommittee on Agriculture and Rural Development on November 30, 2011. In addition to minor revisions, the current memo corrects milk production figures used in the original memo.

Overview of Michigan Dairy Industry and State Regulatory Program

According to the National Agricultural Statistics Service (NASS), *Michigan Agricultural Statistics 2010-2011*, milk production is Michigan's largest agricultural sector. Cash receipts from milk production totaled \$1.41 billion in 2010, representing 22% of total state agricultural cash receipts (\$6.49 billion).

Michigan milk production in 2010 was 8.3 billion pounds. Michigan is the 8th largest dairy state, accounting for 4.32% of U.S production.

The Michigan Department of Agriculture and Rural Development's *Milk Safety and Quality Assurance* program licenses and inspects the dairy industry pursuant to the Grade A Milk Law (2001 PA 266) and the Manufacturing Milk Law (2001 PA 267). Those subject to department licensing and inspection include 2,170 dairy farms (1,890 Grade A dairy farms and 280 Manufacturing dairy farms), 84 dairy processing plants (which produce bottled milk, cheese, butter, yogurt, ice cream, and other dairy products), and over 1,200 milk trucks and milk haulers. Program activities ensure a safe, wholesome milk supply for Michigan consumers.

Without adequate inspection and oversight, milk could not be shipped out-of-state in accordance with the Pasteurized Milk Ordinance—a national standard for dairy-product sanitation developed by the United States Public Health Service. The FY 2011-12 state Agriculture budget appropriated \$3.1 million for the *Milk safety and quality assurance* line item; the budget also authorized 23.0 FTE positions for the program. The program currently (November 2011) has an actual headcount of 20, including 15 field inspectors, 3 technical dairy program specialists, and support/supervisory staff.

In addition to the work of department employees, some dairy farm field inspections are carried out by Certified Field Representatives. According to a department publication, "*A certified fieldperson is an [dairy] industry employee who is trained and certified to conduct Grade A Dairy Farm inspections in the same way a Michigan Department of Agriculture inspector would inspect a dairy farm.*" These dairy farm inspections include tests of bacterial counts, somatic cell counts (a measure of animal infection), and of drug residue. The department is responsible for the certification of field representatives and for oversight of the certified field representative program.

In 2006, as a result of budget constraints, the department discontinued Grade A dairy farm inspections in Huron, Tuscola, and Sanilac counties and asked the dairy industry to perform inspections with certified field representatives. Because of staff reductions associated with December 2010 employee retirements, the department increased reliance on certified field representatives. As of June 2011, certified field representatives were responsible for inspections at 90% of state dairy farms, with 10% of farms inspected by department inspectors. The department has indicated that with

the hiring of three field inspectors in October 2011, bringing the number of department field inspectors to 15, it would reduce reliance on certified industry field inspectors. By February 2012, department inspectors would provide inspection services to 77% of dairy farms in the state, with 23% of dairy farms inspected by certified industry inspectors.

Budget Issues

The FY 2011-12 Agriculture budget appropriates \$3.04 million for the department's milk safety and quality assurance program, of which \$2.84 million is from state General Fund revenue, \$34,900 from federal grants, and \$162,300 in restricted revenue from regulatory and license fees assessed on the dairy industry. This restricted revenue appropriation is somewhat higher than prior years and reflects a 2010 increase in dairy inspection fees – an increase that was anticipated to generate approximately \$100,000 in additional revenue. Prior to the 2010 fee increase, dairy industry inspection fees generated less than \$50,000 in restricted revenue in support of the department's regulatory program. The industry's share of Michigan's regulatory program is low in relation to other dairy states.

The Governor's proposed FY 2011-12 Agriculture budget did not propose an increase in dairy inspection fees. Instead, the Governor had recommended the expansion of the certified field inspector program, in effect shifting more field inspections from department employees to department-certified industry-employed inspectors. The department had indicated that some states, notably New York and Pennsylvania, rely primarily on industry-employed certified inspectors to perform routine dairy farm field inspections.

The estimated General Fund savings from the proposed program shift was \$600,000. However, the enacted budget did not reflect the Governor's proposal; the budget retained the same level of baseline General Fund support as FY 2010-11.

Dairy Regulatory Programs /Michigan Compared to Other States

All states regulate the commercial production and sale of milk and dairy products, and provide a dairy licensing and regulatory program in conformance with the Pasteurized Milk Ordinance.

We did not review dairy inspection programs in all major dairy states. Cross state comparisons are difficult because of different characteristics of the dairy industry and regulatory programs in the various states. Some states have a small number of very large dairy farms. Other states have a large number of relatively small farms. Some states have a higher reliance on industry-employed certified inspectors, as opposed to state inspectors.

Some states administer the dairy inspection program as part of the state food safety program. When a state dairy program is rolled up within a larger food safety program budget, dairy program costs may be hard to isolate. In addition, a comparison of per-farm licensing and inspection fees can be misleading because some states impose a regulatory or inspection fees on dairy processing plants based on the quantity of milk produced.

Although we could not make a comparison of all dairy states, we were able to obtain current data on two major dairy states, California and Wisconsin, as a basis of comparison with Michigan's dairy program.¹

¹ In addition to these current sources, we reviewed several documents prepared by the Wisconsin Legislative Audit Bureau, and the Wisconsin DATCP prior to 2009 fee increases. Those documents compared Wisconsin's dairy safety programs with programs in six other dairy states, based on 2007 data. That analysis indicated that the percentage of program costs supported by fee revenue was as follows: California, 85%; Illinois, 42%; Iowa, 80%; Michigan, 3%; Minnesota, 68%; Wisconsin, 55%. The study was unable to breakout the share of fee Wisconsin, 55%. The study was unable to breakout the share of fee revenue support for New York, but noted that New York used 120 industry employed certified milk inspectors to conduct routine farm inspections.

California – The California dairy inspection program is carried out by the Milk and Dairy Food Safety Branch of the California Department of Food and Agriculture (CDFA). According to the CDFA, the FY 2011-12 appropriation for the dairy inspection program was \$9.37 million. Of this, \$7.8 million (83%) was provided from dairy industry regulatory fees and assessments, with the balance, \$1.5 million, from state General Fund revenue. The CDFA indicated that there were 66 people employed in the dairy inspection program.

The CDFA appears to have the authority to administratively increase fees. Fees were most recently increased effective January 2010.

Wisconsin – Food and dairy safety programs are administered in Wisconsin by the Wisconsin Department of Agriculture, Trade, and Consumer Protection (DATCP). According to a January 2008 *Letter Report* by the Wisconsin Legislative Audit Bureau, food and dairy programs are administered as a single program with a unified budget. The report indicated that for FY 2006-07 the total food and dairy safety program appropriation was \$8.4 million. Although the report did not breakout of dairy program expenditures, based on hours worked the dairy program represented 61.3% of the total food safety program, which equated to roughly \$5.1 million of program cost. Revenue from dairy industry fees and assessments totaled \$2.8 million, or 55% of program costs, with the balance provided by state general fund revenue.

Like California, the Wisconsin regulatory agency, DATCP, has the authority to increase fees administratively. It appears that fees were last increased in 2009; the estimated annual revenue increase at that time was \$683,000. In the three years since the 2009 increase, annual dairy licensing and inspection fee revenue averaged \$3.4 million.

Michigan – In Michigan the dairy licensing and regulatory program is administered by the Michigan Department of Agriculture and Rural Development. Program costs are approximately \$3.0 million per year.² For the eight fiscal years ending with FY 2008-09, dairy licensing and inspection fee revenue averaged approximately \$46,200 – less than 2% of program costs.

Unlike California and Wisconsin, Michigan dairy licensing and regulatory fees are established in statute; the department does not have the ability to administratively increase fees. Senate Bills 1131 and 1132 of the 2010 Legislative Session, enacted as 2010 PA 41 and 2010 PA 42, increased dairy fees effective March 31, 2011. Together, the two bills increased annual dairy fee revenue by roughly \$110,000. For the two fiscal years subsequent to the bill's passage, (FYs 2009-10, and 2010-11) average dairy licensing and inspection fee revenue was approximately \$156,000 – approximately 5% of program costs. See **Chart 1** and **Chart 2** below:

² *Dairy safety and quality assurance* program was unrolled from the *Food and dairy* line item in FY 2010-11. For fiscal years prior to FY 2010-11, the department's dairy program was rolled up in the *Food and dairy* line item and costs can not be determined from budget documents or from the state accounting system. However, Food and Dairy Division annual reports for 2008 and 2009 indicate that from FY 2003-04 through FY 2008-09, dairy program costs ranged from \$2.7 million to \$3.2 million, and averaged \$2.9 million.

Chart 1

Michigan Department of Agriculture and Rural Development				
MILK SAFETY AND QUALITY ASSURANCE				
Expenditures/Appropriations by Fund Source				
	FY2010-11		FY2011-12	
	<i>Appropriated</i>	<i>As Expended</i>	<i>Appropriated</i>	
Federal	34,500	31,688	94,900	
State Restricted (Dairy Fees)	160,000	29,070	162,300	
General Fund	2,721,100	2,721,100	2,840,700	
Total Expenditure/Appropriation	\$2,915,600	\$2,781,858	\$3,097,900	
General Fund Percent of Total	93.33%	97.82%	91.70%	
<p><i>This table shows FY 2010-11 appropriations and actual expenditures, and FY 2011-12 appropriations. In FY 2010-11, the department expended all appropriated General Fund revenue, and lapsed \$130,930 in restricted revenue spending authority.</i></p>				

Chart 2

Michigan Department of Agriculture and Rural Development Restricted Revenue from Dairy Licensing and Inspection Fees

<u>Fee Category</u>	<u>FY2001-02</u>	<u>FY2002-03</u>	<u>FY2003-04</u>	<u>FY2004-05</u>	<u>FY2005-06</u>	<u>FY2006-07</u>	<u>FY2007-08</u>	<u>FY2008-09</u>	<u>FY2009-10</u>	<u>FY2010-11</u>
Licensing and Inspection Fees										
Certified Field Person	960	200	550	780	420	600	720	360	1,200	2,100
Receiving Station/Transfer Station	300	550	400	0	200	0	0	0	0	1,250
Single Service Facility	250	250	50	0	50	0	0	0	0	2,100
Grade A Dairy Farm License Fee	0	3,535	2,035	2,430	1,490	1,390	1,125	1,105	9,915	55,915
Grade A Dairy Plants	14,940	17,495	17,475	17,540	17,875	17,311	17,220	17,615	83,870	34,925
Manufacturing Dairy Plants	5,675	2,060	2,010	2,000	2,100	1,850	2,000	3,180	10,730	10,440
Milk Distributor	650	730	650	230	100	0	50	0	0	1,000
Milk Transportation Company	2,170	2,428	2,620	2,530	2,320	2,655	2,440	3,165	8,020	7,460
Milk Tank Truck Permit	4,510	4,800	5,050	5,750	5,960	6,485	6,259	6,775	13,200	13,650
Milk Bulk-Hauler/Sampler Licenses	22,070	3,974	23,777	4,590	27,310	5,610	29,291	6,370	46,815	7,945
Milk & Cream Tester Licenses	125	0	0	0	0	0	0	0		
Can Milk Truck	130	10	90	0	30	70	40	50	10	20
Milk Tank Truck Cleaning Facility	70	150	100	50	0	0	0	90	350	2,000
Baseline fee revenue	\$51,850	\$36,182	\$54,807	\$35,900	\$57,855	\$35,971	\$59,145	\$38,710	\$174,110	\$138,805
							Eight year ave. ending FY 2008-09	\$46,302	Two Year Ave.	\$156,458
Other Misc. Dairy Program Revenue										
Plan review fee									200	1,000
Second re-inspection fee										2,100
Milk Prod Positive Antibiotics Fines	17,500	7,100	5,700	10,250	4,960	5,850	5,000	3,200	10,370	9,150
Civil Penalties-Dairy								10,700	11,380	3,350

This table shows a ten year history of dairy industry licensing and inspection fee revenue. Fees increased in FY 2009-10 with the enactment of 2010 PA 41 and 2010 PA 42.

Source: State accounting records in MAIN accessed by House Fiscal Agency.

Characteristics of the Dairy Industry/Michigan Compared to Other States

Dairy production in the United States is concentrated in a small number of states. In 2008, the top 11 dairy states account for approximately 75% of U. S. dairy production. The top two states, California and Wisconsin, by themselves account for approximately one-third of U. S. dairy production. Michigan is the 8th largest dairy state and accounts for 4.09% of U. S. milk production (based on 2010 USDA Agricultural Statistics for 2008.)

California – Dairy production in California, the nation's largest dairy state, is concentrated in a relatively small number of large farms. In 2007, there were 1.84 million dairy cows in California on 2,165 licensed dairy farms – an average of 850 cows per farm. Of the 2,165 licensed dairy farms, approximately half were large farms with an average of more than 500 cows per farm. Although those large dairy farms represented only half of licensed dairy farms, they accounted for 91% of the dairy cow inventory and 91% of dairy sales.

Sales of California dairy products in 2010 totaled \$5.94 billion, including international exports. In 2010, California dairy exports accounted for \$705.7 million in sales.

Wisconsin – In contrast to California, Wisconsin, the nation's second largest dairy state, is characterized by a large number of relatively small farms. In 2007, there were 14,158 licensed dairy farms in Wisconsin with a total of 1.25 million cows – an average of 88 cows per farm. Only 272 farms of the state's 14,158 dairy farms kept more than 500 cows (approximately 2%). Nonetheless, these few large farms accounted for over 20% of animal inventory and almost 27% of dairy sales.

Wisconsin's dairy sales totaled \$4.15 billion in 2010, including \$712.0 million in exports to other countries.

Michigan – In 2007, there were 344,233 cows on 2,647 licensed dairy farms in Michigan – an average of 130 cows per farm. Only 116 farms kept more than 500 cows (4.4% of total dairy farms). These large dairy farms accounted for 43% of animal inventory and almost 49% of dairy sales.

Cash sales of Michigan dairy products totaled \$1.41 billion in 2010. In contrast to California and Wisconsin, Michigan exports of dairy products to foreign markets are negligible.

USDA data for 2008 and 2010 indicate that all three states experienced a decline in the number of dairy farms as compared to 2007. However, the size of dairy farms increased as measured by average number of cows per farm.

Note on Sources:

The most current summary of data for dairy production across all states is the 2010 USDA Agricultural Statistics publication showing 2008 production figures. We used this as the source for our broad analysis of the top 11 dairy states shown in **Chart 3**.

The most current detailed information on the dairy industry all states is found in the 2007 Census of Agriculture. We used data from that report to compare California, Wisconsin, and Michigan farm size in **Chart 4**.

The most current detailed descriptions of specific state dairy industry production was obtained from USDA NASS publications showing 2010 production. We used data from that report for **Chart 5**.

Chart 3

Analysis of 11 Largest Dairy States															
2010 USDA Ag Statistics showing data for 2008															
	California	Wisconsin	New York	Idaho	Pennsylvania	Minnesota	Texas	Michigan	New Mexico	Ohio	Washington	Top 11 States		Total U. S. 2008	
Cows	1,844,000	1,252,000	626,000	549,000	549,000	464,000	418,000	350,000	338,000	280,000	244,000	6,914,000	74.22%	9,315,000	
Milk (1,000 lbs)	41,203,000	24,472,000	12,432,000	12,315,000	10,575,000	8,782,000	8,416,000	7,763,000	7,865,000	5,130,000	5,696,000	144,649,000	76.14%	189,982,000	
Cash Receipts	6,924,121	4,571,532	2,380,800	2,100,564	2,102,200	1,658,262	1,568,743	1,485,696	1,363,250	1,004,700	1,000,032	26,159,900	75.07%	34,849,113	
California and Wisconsin Totals								Michigan Percent							
Cows	3,096,000	33.24% Percent of US Total					Cows	3.76% Percent of US Total							
Milk (1,000 lbs)	65,675,000	34.57% Percent of US Total					Milk (1,000 lbs)	4.09% Percent of US Total							
Cash Receipts	11,495,653	32.99% Percent of US Total					Cash Receipts	4.26% Percent of US Total							
<i>Multi-state comparison based on 2010 NASS Ag Statistics, Section VII (Dairy and Poultry Statistics) from USDA website</i>															

Chart 4

**Characteristics of Three Dairy States
USDA 2007 Census of Agriculture**

	California 2007		Wisconsin 2007		Michigan 2007	
Cows	1,840,730		1,249,309		344,233	
Diary farms	2,165		14,158		2,647	
Average cows per farm	850		88		130	
Farms > 500 Head	1,103	50.95%	272	1.92%	116	4.38%
Cows on Farms > 500 Head	1,677,983	91.16%	257,358	20.60%	148,972	43.28%
Dairy Sales						
All Farms	6,546,188		4,542,940		1,279,594	
Farms > 500 Head	5,986,867	91.46%	1,208,572	26.60%	622,157	48.62%

Chart 5

Characteristics of Three Dairy States 2010 USDA Ag Statistics

	California		Wisconsin		Michigan	
	2008	2010	2008	2010	2008	2010
Cows	1,844,000	1,754,000	1,252,000	1,262,000	350,000	358,000
Milk (1,000 lbs)	41,203,000	40,385,000	24,472,000	26,035,000	7,763,000	8,327,000
Cash Reciepts	6,924,121	5,932,557	4,571,532	4,147,199	1,485,696	1,411,000
Diary farms	1,905	1,710	14,272	12,710	2,385	2,230
Average cows per farm	968	1,026	88	99	147	161

Sources:

Michigan Ag Statistics (NASS) 2010-2011

Cows and milk production from USDA NASS Milk Production released February 18, 2011.

California Dairy Statistics Annual Report, 2008